

Monetary and Financial Issues at UNCTAD VIOverview/StrategyIssue

Both the G-77 and the UNCTAD Secretariat will stress monetary and financial proposals at UNCTAD VI, both as the core of the "immediate measures" program proposed at the March NAM Summit and endorsed at Buenos Aires to revitalize LDC growth, and as part of their long-term campaign for "reform" in the international monetary system. While we will have to deal to some extent with the G-77 agenda, our primary focus should be on using UNCTAD as a forum for promoting our own views on the roles of domestic policies, trade, adjustment, private investment and aid effectiveness in development.

Background

The G-77's view of how monetary and financial issues should be treated at UNCTAD VI is diametrically opposite to ours. The G-77 will stress the external causes of the economic "crisis" confronting them, and will demand external solutions through various forms of new resource flows. While we recognize the impact of external factors, especially the oil price shocks of the 70's and the global recession, we believe that failure on the part of most countries to adjust promptly to changing world economic conditions has exacerbated the problem and deepened the recession. We therefore stress the need for adjustment by all countries to reestablish a basis for sustainable, non-inflationary growth and increased world trade. They will demand increased aid; we insist on effective aid use and on graduation. They press for radical systemic change, while we point to the international financial system's evolution, its adaptability and its fundamental soundness. Given our fundamental differences over the nature and degree of the problems facing the world economy, especially the economies of developing countries, we can expect the money and finance agenda at Belgrade to be difficult.

Our differences are not only with the LDCs. Many in Group B are less inclined to promote market solutions to economic problems, perhaps due in equal measure to philosophical differences and to a desire to protect sensitive domestic markets from LDC competition, and are more willing to accept proposals, which in our view are unsound or impinge on the role and responsibilities of the international financial institutions. Therefore we will need to devote considerable attention to protecting our flanks from Group B desertion. If we succeed, we can direct G-77 efforts to more pragmatic solutions and protect the international financial institutions.

NSC review completed.

CONFIDENTIAL

-2-

### U.S. Agenda for Growth

Our vision of interdependence is different from those of most of our adversaries in the G-77, and even from many of our partners in Group B. The United States is supporting a comprehensive, positive program to assist in making current LDC payments difficulties more manageable and to create the basis for sustained, long-term economic recovery. Our multi-faceted strategy emphasizes: economic adjustment by countries in payments difficulties; adequate support from official sources, particularly the IMF, to assist these adjustment efforts; willingness of governments and central banks in lending countries to act quickly, on a selective basis, to respond to individual debt crises; prudent new lending by commercial banks to countries undertaking effective adjustment efforts; and pursuit by industrial countries of policies designed to promote sustained, non-inflationary growth and counteract protectionist pressures in order to maintain an open world market and trading system. In helping to ameliorate current difficulties and strengthen the existing monetary financial, and trading system in the long run, the independent specialized agencies (IMF, World Bank, and GATT) play a central role in this U.S. approach.

The U.S. view of interdependence and the linkages between trade, finance, and development is most clearly illustrated by the stress we place on orderly and effective domestic adjustment in borrowing countries. To more efficiently allocate resources, LDCs need to pay more attention to market signals. At the same, DCs need to maintain open markets and pursue non-inflationary growth policies so that LDCs can increase net exports, service their debts, and invest.

There is general agreement in Group B over the key role that appropriate LDC domestic policies play in development. We will want to push for endorsement of policies which rationalize LDC economies, permitting prices and exchange rates to be set by market forces and productive entities to respond to real demand, both domestic and international. Such adjustment is key to the resolution of current balance of payments and debt problems facing many LDC economies.

We want to focus attention on the role of private sector in development. The private sector, both domestic and foreign, can be the decisive factor in mobilizing energies and resources for development. At the same time, we recognize that, in many cases, development assistance is an important catalytic factor, especially for the poorest countries.

CONFIDENTIAL

CONFIDENTIAL

-3-

Ours is a different agenda from that of the G-77, but it is a sound one. If we are able to advance our ideas effectively at Belgrade, we may be able to encourage the slightly greater pragmatism and realism which some LDC-representatives have begun to show in public fora in recent months.

#### US Posture at UNCTAD

Recognizing that UNCTAD is, despite its serious limitations, a major forum for the exchange of ideas on development, we should be aggressive in presenting our vision of growth and development policy there. The reluctance of the Europeans, especially the French, to discuss trade matters should be used as leverage in holding back the EC in areas of finance critical to US interests. Our key concerns should be:

-- to prevent expansion of UNCTAD activities in the monetary and financial area, ensure that independence of specialized agencies (IMF, GATT, World Bank) is respected, and that no attempt be made to dictate their policy decisions.

-- to stress the progress that is being made in appropriate fora to address LDC concerns.

-- to stress the importance of adjustment, and the key role IMF conditionality plays in facilitating it.

-- to ensure that proposals emerging from the Conference do not jeopardize Congressional adoption of negotiated packages such as the IMF quota increase or US contributions to IDA VI.

#### The G-77 Agenda: US Strategy

G-77 proposals fall roughly into four categories:

- a) measures to increase financing for LDCs through the IMF;
- b) measures to increase bilateral and multilateral ODA;
- c) debt relief measures;
- d) proposals for institutional reform of the international financial system.

#### a) Measures to increase financing for LDCs through the IMF

G-77 proposals include: substantial SDR allocations (at least SDR 15 billion annually), SDR-aid link, completion of Ninth General Review of Quotas by 1984, enlargement or at

CONFIDENTIAL

CONFIDENTIAL

-4-

least maintenance of existing access policy, increase in LDC share of quotas, new facilities for extended financing, liberalization of conditionality, and expansion and liberalization of the CFF.

The G-77 appear to be fairly united in their demands on the IMF. We expect Group B cohesion to hold firm that the IMF itself is the appropriate body to take decisions on such measures. Nonetheless, Group B cohesion will be strained by differences within the Group about where the line should be drawn concerning discussion of these proposals in any detail by the Conference and negotiation of resolution language on the need for such measures.

The US seek a common Group B position which would:

- stress the significant accomplishments of the Interim Committee and G-10, which governments are making every effort to implement.
- point out that other matters (SDR allocation, levels of access to IMF lending) are under consideration in the IMF Executive Board and UNCTAD should not attempt to predetermine the outcome
- stress that resource transfers without appropriate conditionality will only delay needed adjustment and prolong economic difficulties.
- stress trade and private flows as the primary source of financing for development except for the very poorest countries.

b) measures to increase bilateral and multilateral ODA

Other countries have proposed, inter alia, bilateral targets; MDB funding levels and disbursement programs; gearing ratios; proposed increase in IBRD structural adjustment lending programs; elimination of graduation from hard windows; creation of a World Bank energy affiliate; they may also include inadequacy of Soviet-bloc aid.

Within Group B, the US and Switzerland are the only countries which have rejected the concept of donor GNP targets for aid. We will therefore need to downplay targetry and push for a focus on recognition of aid as only a small part of overall resource flows, with trade, private capital and investment flows more important; push effective use of aid as the key question to be faced; support better coordination and cooperation among donors; point to World Bank special assistance program for faster-disbursing aid; resist attempts to have UNCTAD dictate policy to MDBs; and support more effective graduation policies and targeting of aid on poorest countries.

CONFIDENTIAL

CONFIDENTIAL

-5-

c) debt relief measures

G-77 proposals in the debt area include a call: for extending retroactive terms adjustment provided for in Part A of Resolution 165 to all low income countries and converting outstanding ODA loans into grants for all LLDCs; for all non-LLDCs, generalized relief on ODA repayments in the form of a two year moratorium on principal payments and, on official export credits, a consolidation and rescheduling of a substantial portion of principal and interest payments; additional program assistance from the MDBs equal to debt service owed to them; a revision by the TDB at its spring 1987 session of the debt features in Res. 222(xxi); a framework for consultations, involving the debtor and its private official creditors, prior to an official debt rescheduling. Reference is also made to the need for a generalized approach for dealing with private debt problems. This is not included in the operative portion of the draft Buenos Aires resolution on debt, however, and may reflect efforts on the part of major LDC debtors concerned about relations with their private bank creditors to head off UNCTAD intrusion into private debt operations.

In Group B, we expect general support for the traditional case-by-case approach to debt renegotiation in the Paris and London clubs; resistance to creation of new institutional frameworks; and extension of UNCTAD's activities in the LDC debt area. The odd man out is New Zealand, whose proposal for a facility to purchase and restructure LDC short-term debt hasn't generated much interest in Group B. France may be interested in some special debt relief, possibly RTA, to be offered to the poorest LDCs.

We will want to push our five-point program to ensure integrity of the international financial system (debtor adjustment, adequate IMF funding, central bank/treasury cooperation in selected emergencies, continued private bank lending in support of adjustment and open, growing markets in developed countries) as the best approach for making LDC debt liquidity difficulties manageable in the short run and restoring the basis for long term recovery. We should: oppose G-77 proposals for the creation of new institutional frameworks for dealing with LDC debt problems; prevent UNCTAD from expanding its activities in the area of LDC debt; ensure that any discussion of the implementation of debt features not damage the independence of the Paris Club or commercial bank renegotiations. We should be prepared, as necessary, to call on Latin American and Asian moderates to downplay the scope of debt proposals at the UNCTAD Conference.

CONFIDENTIAL

CONFIDENTIAL

-6-

d) proposals for institutional reform

The G-77 will push the traditional NIEO objectives of restructuring the international monetary system, particularly in terms of seeking a greater voice in decision making processes. Some sympathy has been expressed in Group B (France) for the G-77 call for power sharing. The United States should strongly resist any efforts at the UNCTAD VI Conference to negotiate or even to discuss in detail any area which is outside UNCTAD's mandate.

With regard to the NAM call for a "global" conference on money and finance for development, the U.S. should seek Group B agreement that such a conference would directly undercut the existing fora dealing with monetary and financial issues (i.e., IMF, Interim Committee and Development Committee), create undesirable expectations, and detract from efforts underway to address current economic and financial difficulties.

CONFIDENTIAL

## UNCTAD VI

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## Agenda Item 13 - Basket Issues

AN OVERVIEW AND STRATEGY

The basket item on the UNCTAD agenda is a cluster of items representing various special interest groups within UNCTAD. The US would have preferred an agenda which did not include the particular and generally parochial items included in the basket. This generalization is open to one important exception: we were intent on having institutional questions on the agenda, and lacking support for its inscription in any other form, we had to be content to have it placed in the basket.

The reasons for our interest and concern on institutional issues are described in the background and position papers on this issue but can be briefly summed up as follows:

We consider that disputes over UNCTAD's mandate, bad management practices and general lack of accountability of the Secretariat to the member governments are serious impediments to the development of a coherent work program. These problems contribute to the widely shared view of many member governments that UNCTAD's end products are not in any clear fashion commensurate with the human and financial resources being invested in it.

We have already undertaken significant spade work in Group B to generate support for our view on institutional issues. A non-paper and a draft resolution have been distributed at OECD and in Geneva. While generally sympathetic to the substance of our resolution, Group B is concerned nevertheless that our emphasis on institutional matters will open up all items in the basket to substantive consideration at UNCTAD VI rather than a simple "review." This viewpoint is most vocally advanced by G-B representatives in Geneva.

While we have not received any specific G-77 reaction to our draft resolution on institutional issues, we can expect significant opposition which will come in two forms and from two sources. The UNCTAD secretariat, supported by the G-77, will oppose our specific proposals, e.g., our call for evaluations and procedures to provide for greater

CONFIDENTIAL

-2-

accountability, viewing them as a threat to their independence and freedom of action. On the other hand, the G-77 member states will oppose our general thrust since they approach the question of institutional matters from an entirely different direction. Their view involves dramatic structural changes, with emphasis on discussions of the establishment of an international trade organization and/or readjustments in the relationship between UNCTAD and the Bretton Woods institutions. Our approach has been one involving specific managerial and administrative improvements to the existing organizational structure.

Clear indications of the course to be pursued by the G-77 (and the Secretariat) are contained in the two G-77 draft resolutions on institutional issues prepared by the G-77 Ministers at the Buenos Aires Meeting. One resolution would give the TDB a mandate to undertake "an in depth study of the ways and means of bringing into existence a comprehensive international organization to deal with all aspects of trade and development. . .". This same resolution would inter alia grant UNCTAD "operational flexibility on budgetary and administrative matters." The second treats the TDB as a "consultation mechanism" and calls for ministerial level meetings once every two years beginning in the second half of 1984.

In order to achieve even our minimum objective on institutional issues, the US delegation will probably face an up-hill and prolonged battle involving widespread representations and demarches before and during the conference.

Institutional matters--including our view of UNCTAD's mandate and its relationship to other trade and development organizations as well as an explanation of our initiative on management and administrative improvements--should be a feature of our general debate statement.

At the opposite end of our range of interest is the item on national liberation movements. We are utterly opposed to the discussion of this issue at UNCTAD VI in any form. Nevertheless, the prospect of dropping the item from the agenda is remote. That being the case, we must be prepared to continue our vocal expression of outright opposition to any UNCTAD work in this field, and we should announce our intention to oppose any action on this item in our Plenary statement.



CONFIDENTIAL

-3-

Recent developments on Economic Cooperation Among Developing Countries (ECDC) have demonstrated how very thin the consensus is on implementing programs designed to forward the generally admirable principle of South/South cooperation. The unusual nature of the disagreements over implementation of the GSTP portion of ECDC--distinguished by a complete split between developed and developing countries over the principle of universality, which was forced to a vote--and the fact that the issue was side-stepped in a subsequent UNGA session, give rise to two possibilities. ECDC could become a centerpiece of UNCTAD VI or it could be ignored altogether. For now we prefer that it be ignored and that it be handled in regularly constituted channels in standing committees. Specifically, we favor discussion of this issue in the ECDC committee meeting scheduled for late 1983. A meeting on GSTP aspects of ECDC will take place in Geneva on May 2-6. Pending the outcome of the May meeting, our position remains that we will attack only if attacked. Our principled position on universality and sovereign equality of UN member states is clear and must be repeated if contested directly or obliquely. A basic objective of our strategy will be to maintain Group B unity in the face of any threat to recognized UN principles of universality and sovereign equality of states.

Trade relations among countries having different economic and social systems (East-South Trade) also may pose a special problem. The Secretariat paper on this item (TD 280) is a particularly egregious example of Secretariat bias and concern over it has been expressed within group B. We have recommended to our Group B colleagues that a strong substantive reaction to this document be prepared.

On all items in the basket, the US delegation will pay particular attention to the positions of other states and the Secretariat on future work programs. These work programs in general must, of course, conform to our view of UNCTAD's limited mandate. Beyond that, they must meet the USG's established position on the question of financial implications, i.e., activities called for must be implemented within a policy of zero net program growth with significant absorption of non-discretionary costs or by reprogramming of existing resources.

CONFIDENTIAL

-4-

At the Ministerial Meeting in Buenos Aires, the G-77 prepared draft resolutions on all of the basket items. Taken as a whole, the resolutions on the basket item provide for significant actions by UNCTAD in a number of areas. The cumulative effect will be to further expand UNCTAD's scope of action, increase the budget (since no complementary reductions are proposed) give the secretariat increased autonomy and move the organization into unproductive and controversial areas.

Highlights of G-77 resolutions prepared for the Basket Group item along with preliminary indication of US positions on each, follow:

Item 13 (a) Technology - A broad resolution that inter alia (1) urges conclusion of a code of conduct on transfer of technology (TOT), as well as revision of the Paris Convention on Industrial Property Protection; (2) urges UNCTAD to take measures to implement UNGA Resolution on the reverse transfer of technology ("brain drain"); (3) calls for massive expansion of the Advisory Service on TOT; (4) advocates UNCTAD action on a code of conduct for the pharmaceutical industry; (5) requests further UNCTAD meetings on TOT in food processing, capital goods and energy; and (6) recommends the adoption and implementation of a "Strategy for the technical transformation of developing countries."

US position: The US must oppose this draft resolution in its present state. Although general, hortatory language on the conclusion of a code of conduct on TOT and revisions of the Paris Convention may be acceptable, we must oppose endorsement of the UNGA Resolution on Reverse Transfer of Technology, and a code of conduct for the pharmaceutical industry. The proposed "Strategy for the Technological Transformation of developing countries," and increases in advisory services on TOT are laced with unacceptable budgetary implications.

Item 13 (b) Shipping - Two resolutions. The first, inter alia (1) urges special credit arrangements for LDC construction and purchase of ships, and (2) calls for "structural changes" in the world shipping industry. The second calls on member countries to implement the Code of Conduct for Liner Conferences and on the Secretary General to provide necessary assistance, particularly to developing countries.

CONFIDENTIAL

-5-

US Position - On the first US plans to join Group B in opposing most of the terms of the resolution on shipping and to support alternative proposals currently being drafted by the OECD. On the second, the US opposed the Code and will vote against the resolution.

Item 13 (c) Landlocked and Island Developing Countries - Two anodyne resolutions noting the special conditions of landlocked and island developing countries and calling for international assistance in the areas of transport and telecommunications development as well as general development assistance.

US position - The US does not accept the concept of landlocked and island developing countries as separate categories of developing states. We cannot support any calls for special donor efforts, new funds, new institutions or major initiatives for these "groups," although we would not oppose general statements calling for efforts to help them accelerate their economic development through activities designed to overcome their geographic handicaps.

Item 13 (d) - East-South Trade - One resolution listing a number of measures to be taken by Group D (Soviet and Eastern Bloc) but making no reference to east-west trade.

US Position - As written, this resolution poses no serious problems and the US could support it. Although it overstates the role of the socialist countries in the international trading system, it refrains from raising extraneous issues of east-west trade.

Item 13 (e) - ECDC - Two resolutions. The first urges member states to lend full support to pending action under the G-77's Caracas program to promote ECDC in specific areas such as trade and raw materials while the second one calls for "full implementation" of Resolution 127 V, which outlines ECDC activities.

US position - We oppose both resolutions. The US cannot accept UNCTAD support to the G-77's Caracas Plan of Action nor can we accept language linking ECDC to the NIEO. Neither can we support the "full implementation" of Resolution 127 (V) because it is not clear that programs outlined in that resolution would be open to all UNCTAD member states.

CONFIDENTIAL

-6-

Item 13 (f) - Assistance to National Liberation Movements - Three resolutions. The first is a general resolution in line with Resolution 109 V. The second requests that the UNCTAD Secretary General set up a special unit to "monitor and investigate" developments relating to Palestine. A third requests that UNCTAD "intensify" work related to a survey of economic and social conditions in Namibia.

US position. The US opposed inclusion of this item on the agenda and will oppose the resolutions. If we are unable to block consideration of the item at the Conference, the US will call for a vote on each and vote no.

Item 13 (g) - Institutional Issues - Two resolutions. The first seeks inter alia a UNGA Resolution that would give the TDB a mandate to undertake a study of "ways and means to (bring) into existence a comprehensive international organization to deal with all aspects of trade and development related matters," and which would grant UNCTAD "operational flexibility on budgetary, financial and administrative matters." The second resolution concerns the TDB as a "consultative mechanism" and calls for meetings at the ministerial level every two years beginning the second half of 1984.

US position. These resolutions are completely unacceptable. We oppose the study and the expansion of UNCTAD's operational flexibility. We oppose creation of the consultation mechanism in the first instance because the mechanism has never been defined. We oppose convening the Trade and Development Board at the ministerial level every two years

Consistent with the overall approach to UNCTAD VI, we will seek Group B unity in opposing any substantive actions under the basket item with the exception of institutional issues. Under that item we will oppose any actions whose result will be to further expand UNCTAD's mandate or further reduce the already tenuous control over the secretariat now exercised by the member states. We will continue to seek actions along the lines of those proposed in our draft resolution or, failing that, more effective implementation of Resolution 231, (Rationalization Resolution).

CONFIDENTIAL

-7-

As indicated earlier, a statement clearly defining our view of what, in fact, we mean by institutional issues and the importance we attach to progress in that regard should be included in the US plenary statement.

Our basic objective in the basket item, therefore, is two fold--to press for serious, substantive consideration based either on our draft resolution or on Resolution 231 (the Rationalization Resolution) and to see to it that other items in the basket area treated on a "review only" basis.